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GENERAL

1. US favors truce negotiations in Palestine--Concerning the Palestine problem, the Department of State has instructed the US delegation at the UN: (a) to vote against the British proposal to apply to the northern Palestine front the 4 November Security Council resolution demanding troop withdrawals in the Negeb; (b) to support the proposal of UN Acting Mediator Bunche which requests the Arabs and Jews to enter into immediate negotiations with the intention of settling all truce problems and establishing an armistice; and (c) not to co-sponsor or introduce the Bunche resolution. The US delegation has previously reported that the British do not appear "to hold too strongly" to their proposal and that Canada may be inclined to sponsor Bunche's suggestion.

2. Tentative agreement on Italian naval deliveries to the USSR--The Italian Ambassador in Moscow has informed US Ambassador Smith that: (a) Italy has agreed in principle to complete the transfer before 1 June 1949 of the Italian naval vessels granted to the USSR by the Italian peace treaty; (b) the USSR has agreed in turn to accept the Italian formula of reparations; and (c) on the basis of this formula, Italian-Soviet talks will be begun soon concerning both reparations and trade agreements. The Italian Ambassador emphasized that this agreement places the Italian trade delegation in a favorable negotiating position and that no vessels need be delivered unless Italy can secure satisfactory terms.

FAR EAST

3. CHINA: National Government's fall "inevitable"--US Embassy Nanking now considers that "the early fall of the present National Government is inevitable." The Embassy reports that US senior military representatives in Nanking unanimously agree that: (a)

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there is no step that China or the US can take in sufficient time to retrieve the military situation; and (b) Communist forces can reach the Yangtze River in the vicinity of Nanking in two weeks. The Embassy believes that the National Government will be replaced either by a Communist government or a Communist-dominated coalition but cannot predict at this time which it will be.

(CIA Comment: CIA believes that the life of the National Government will not, at most, extend beyond the next few months.)

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